

Montgomery County Business Personal Property Tax Billing Process

May 21, 2010

CountyStat Principles

- **Require Data-Driven Performance**
- **Promote Strategic Governance**
- **Increase Government Transparency**
- **Foster a Culture of Accountability**



Agenda

- Welcome and Introductions
- Overview of Maryland Business Personal Property Tax Law
- Business Personal Property Tax Certification and Billing Process
 - Role of State of Maryland
 - Role of Department of Finance
- Analysis of Impact of Current Practice on County Revenue
 - Total Bills Issued
 - Bills Issued “On Time”
 - Impact of Top-10 Bills
- Business Personal Property Tax Bill Collection Process
 - Role of the Office of the County Attorney
 - Follow-Up On Unpaid Bill Data
- Wrap-Up and Follow-Up Items



Tracking Our Progress

■ Meeting Goals:

- Determine the impact of State certification delays to county collection of business personal property taxes
- Identify opportunities to streamline existing business personal property tax debt collection practices



Overview of Maryland Business Personal Property Tax Law

- The State of Maryland taxes business who own personal property which is imposed and collected by the local governments
- Responsibility for the assessment of all personal property throughout Maryland rests with the Department of Assessments and Taxation
- Personal property generally includes furniture, fixtures, office and industrial equipment, machinery, tools, supplies, inventory and any other property not classified as real property
- Assessments are conducted for both domestic entities (within Maryland) or foreign (formed in another state or country)
- Failure to pay personal property tax can lead to the revoking of a Maryland business charter
- Certain corporations must pay the state an annual reporting fee:

Entity Type	Fee	Entity Type	Fee
Stock	\$300	LLP	\$300
Non-Stock	\$0	LP	\$300
Foreign Insurance	\$300	Business Trust	\$300
Foreign Interstate	\$0	REIT	\$300
LLC	\$300	SDAT Family Farm	\$100



Overview of Maryland Business Personal Property Tax Law

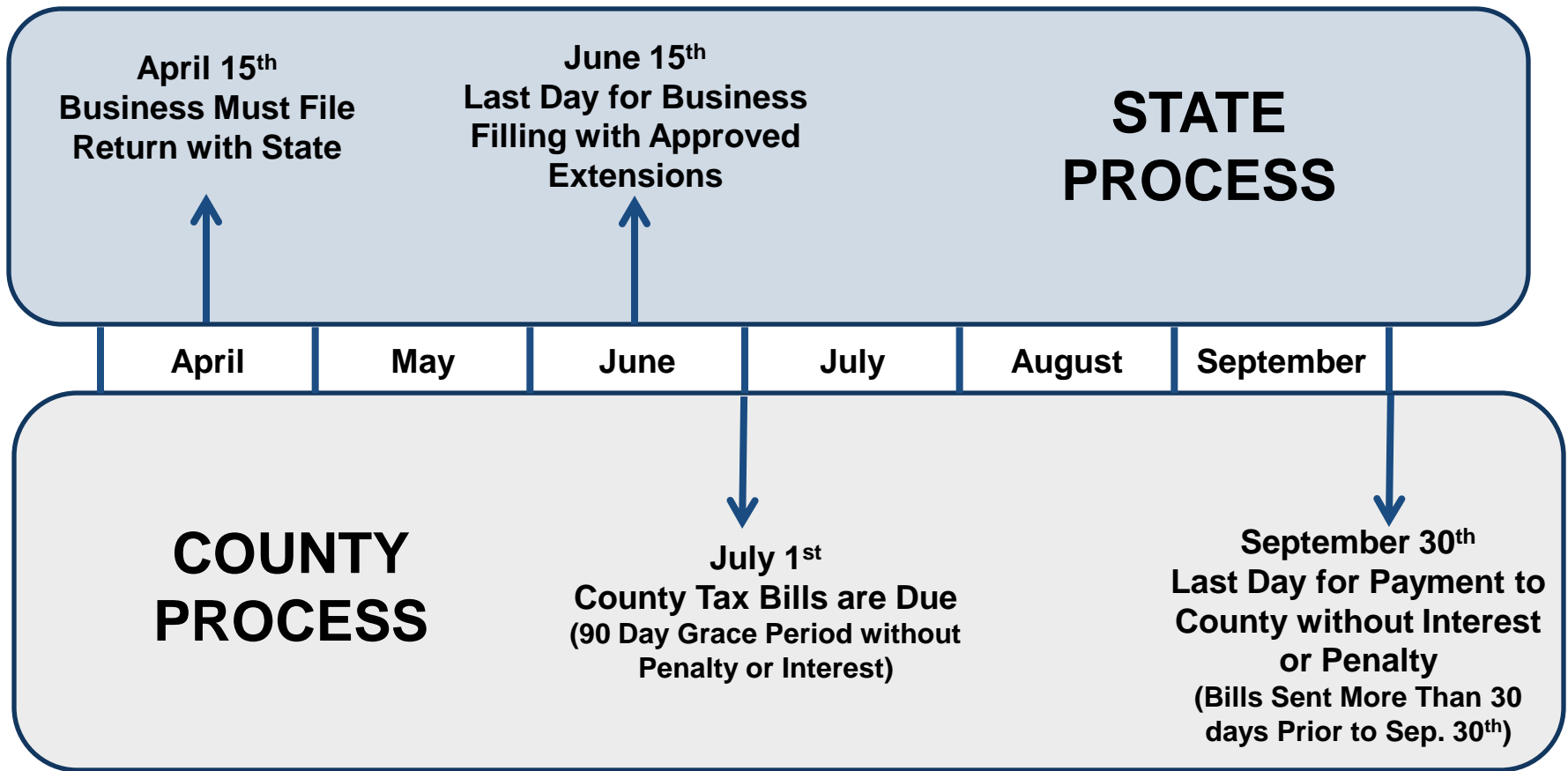
- Personal property is valued on an annual basis based on the original cost less an annual depreciation (not to be below 25% of the original cost)
- Business must file the return by April 15th for all personal property located in Maryland on January 1, the date of finality
- Extensions to the April 15th deadline can be granted, thus extending the deadline to June 15th
- Failure to file by the deadline results in a penalty of 1/10 of 1% of the county assessment plus interest at the rate of 2% of the initial penalty amount for each 30 days the return is late

Day Late	Min.	Max
01-15	\$30	\$500
16-30	\$40	\$500
31 or more	\$50	\$500

Business which do not file a return are subject to an estimated assessment of up to twice the estimated value of the personal property owned. A business may file an appeal of the assessment within 45 days.



Business Personal Property Tax Process: Important Dates



County bills sent less than 30 days from the September 30th grace period date are due at the end of the following month



Business Personal Property Tax Process: State of Maryland

▪ Areas of Responsibility:

- Process returns filed by April 15th and issue certification to county
- Grant filing extensions to June 15th if submitted prior to March 15th and subsequently approved
- Generate estimated assessments if return is not filed by September
- Correct assessment on the basis of actual return
 - Businesses have a 45 day window to protest the assessment
 - There is a 3 year window for businesses to file amended personal property returns to correct previous error in reporting or claim missed exemptions (except for miss manufacturing)
- Revoke Maryland charter in event of failure to file

The State of Maryland does not revoke business licenses or monitor bill payment activity



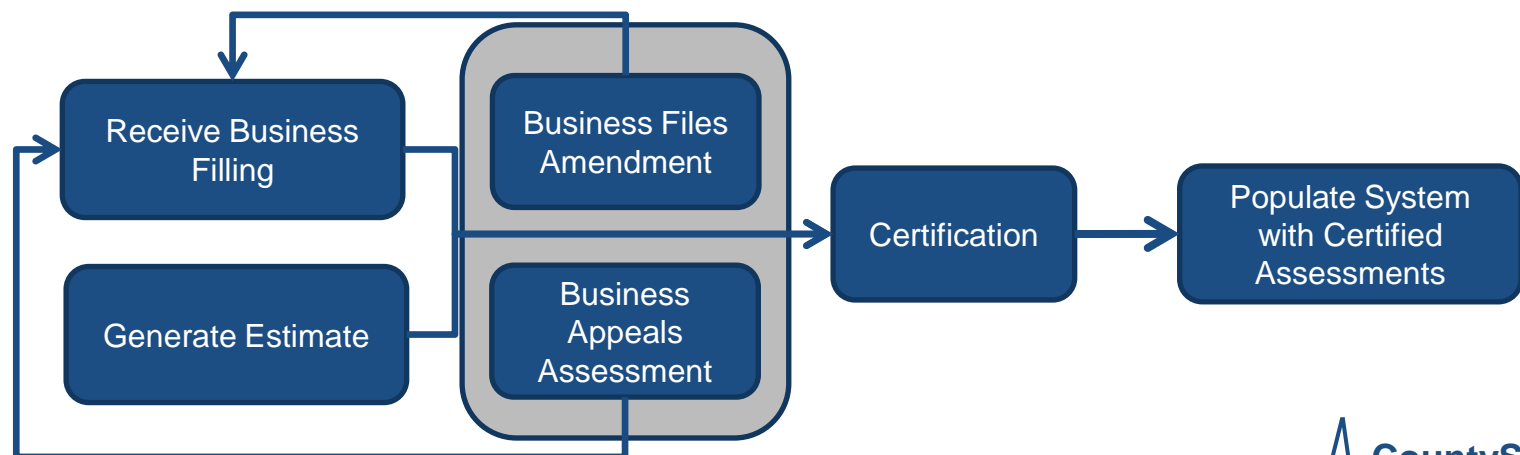
Business Personal Property Tax Process: State of Maryland

▪ Resource Challenges/Backlog:

- While there are multiple certifiers on staff, they do not always have a comfort level entering data into the system, there is only one data entry person on staff
- Currently, statewide there are about 600 personal property returns for FY10 awaiting certification
- The state does produce a “Forthcoming Certification Report” that lists business who have filed that the county could use to determine the number of returns awaiting certification

Montgomery County has recently learned of this report's existence and requested a copy

Overview of State Process

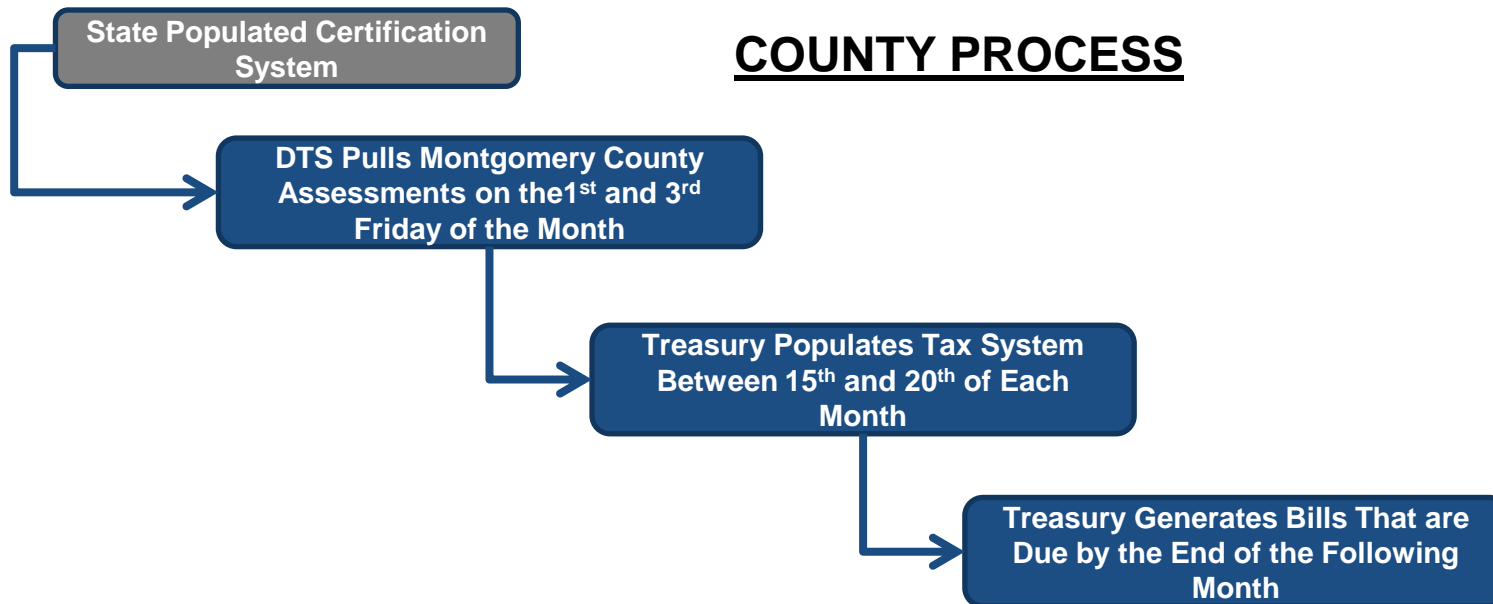


Business Personal Property Tax Process: Montgomery County Department of Finance

Finance does not have data on State controlled variables such as the following:

- Total number of businesses required to file in Montgomery County
- Count of returns filed by April 15th or June 15th extension

**Finance does not track each assessment by certification date,
rather they use the tax system billing cycle date**



Finance: Total Personal Property Bills Sent FY06 – FY10

	FY2006	FY2007	FY2008	FY2009	FY2010
Total PP Bills Sent	29919	30133	28923	29173	28804
Total number of PP bills Sent "On Time" (w/ Sep. 30th date)	16096	15249	12055	10203	12799
Number of PP bills sent "Late" (Certifications after Sep. 30th)	13823	14884	16868	18970	16005
Percentage of 'Late' Certifications from State	46%	49%	58%	65%	56%

For purposes of this analysis, any personal property tax bill sent after the September 30th due date is considered “late” in terms of when the County received the certification



Finance: Total Value of Personal Property Bills Sent FY06 – FY10

	FY2006	FY2007	FY2008	FY2009	FY2010
Total Value of PP Bills Sent (General County Estimate)	\$ 64,871,437	\$ 64,586,740	\$ 58,543,264	\$ 63,799,703	\$ 70,355,580
Total Value Sent "On Time" (General County Estimate)	\$ 12,051,562	\$ 16,830,207	\$ 8,030,941	\$ 8,176,981	\$ 13,596,160
Total Value Sent "Late" (General County Estimate)	\$ 52,819,875	\$ 47,756,533	\$ 50,512,324	\$ 55,622,722	\$ 56,759,420
Percentage of value sent "Late" (General County Estimate)	81%	74%	86%	87%	81%

For purposes of this analysis, all personal property tax values use only the portion devoted to the General Fund



Finance: Potential Impact of Delays in Personal Property Tax Certifications

	FY2006	FY2007	FY2008	FY2009	FY2010
County Rate of Return	4.12%	5.21%	4.41%	1.71%	0.22%
Potential Loss in Interest Revenue (3 Month Payment Delay)	\$544,045	\$622,029	\$556,898	\$237,787	\$31,218
Potential Loss in Interest Revenue (6 Month Payment Delay)	\$1,088,089	\$1,244,058	\$1,113,797	\$475,574	\$62,435
Potential Loss in Interest Revenue (1 Year Payment Delay)	\$ 2,176,179	\$ 2,488,115	\$ 2,227,593	\$ 951,149	\$ 124,871

This analysis operates with a constant payment percentage of 100% to demonstrate the maximum possible impact of delays.

For purposes of this analysis, all personal property tax values use only the portion devoted to the General Fund



Impact of Top-10 Business Personal Property Tax Assessments

- The top-10 assessments routinely account for almost 50% of total general fund billing
- Finance reports that businesses with large personal property tax bills usually seek to make their payments as soon as possible
- In FY10, in the first time in county history, Finance estimated a bill for a Top-10 Company due to delays in securing a certification from the State of Maryland

	FY07	FY08	FY09
Total value of bills sent (General fund 65%)	\$69,968,969	\$63,421,870	\$65,825,091
Total value of Top-10 bills sent (General fund 65%)	\$30,961,964	\$28,687,342	\$31,032,469
Top-10 as Percentage of Total	44%	45%	47%
Number of Top-10 Billed “On-Time” (September 30 th)	2	1	2



Top Ten Personal Property Assessments Including Public Utilities FY2007

FY2007	Assessment	Tax Rate	Tax
Potomac Electric Power Company	698,129,530.00	1.560*	\$10,890,820.67
Verizon- Maryland	640,263,660.00		\$9,988,113.10
Washington Gas Light Company	229,028,830.00		\$3,572,849.75
Mirant Mid-Atlantic LLC	123,252,370.00		\$1,922,736.97
Citigroup Inc	77,585,750.00		\$1,210,337.70
International Business Machines Corporation	68,485,280.00		\$1,068,370.37
Comcast of Potomac LLC	54,176,470.00		\$845,152.93
Government Employees Insurance Company	31,624,290.00		\$493,338.92
Lockheed Martin Corporation	33,480,010.00		\$522,288.16
General Electric Credit Corporation	28,715.100.00		\$447,955.56



* Tax Rate of General Fund Only

Top Ten Personal Property Assessments Including Public Utilities FY2008

FY2008	Assessment	Tax Rate	Tax
Potomac Electric Power Company	647,964,520.00	1.567*	\$10,153,604.03
Verizon- Maryland	564,997,870.00		\$8,853,516.62
Washington Gas Light Company	216,464,330.00		\$3,391,996.05
Mirant Mid-Atlantic LLC	121,288,710.00		\$1,900,594.09
Citigroup Inc	78,671,270.00		\$1,232,778.80
Verizon - Washington DC Inc	55,032,570.00		\$862,360.37
Comcast of Potomac LLC	45,900,370.00		\$719,258.80
International Business Machines Corporation	36,927,290.00		\$578,650.63
IBM Credit Corporation	33,169,210.00		\$519,761.52
Potomac Edison Company	30,301,270.00		\$474,820.90



* Tax Rate of General Fund Only

Top Ten Personal Property Assessments Including Public Utilities FY2009

FY2009	Assessment	Tax Rate	Tax
Potomac Electric Power Company	682,508,460.00	1.652*	\$11,275,039.76
Verizon- Maryland	647,615,230.00		\$10,698,603.60
Washington Gas Light Company	230,268,250.00		\$3,804,031.49
Citigroup Inc	101,849,520.00		\$1,682,554.07
Comcast of Potomac LLC	68,600,040.00		\$1,133,272.66
International Business Machines Corporation	38,043,180.00		\$628,473.33
Government Employees Insurance Company	32,612,320.00		\$538,755.53
IBM Credit LLC	27,345,450.00		\$451,746.83
Lockheed Martin Corporation	25,426,240.00		\$420,041.48
Gaint of Maryland LLC	24,210,070.00		\$399,950.36



* Tax Rate of General Fund Only

Department of Finance Recommendations on Improving Existing Processes

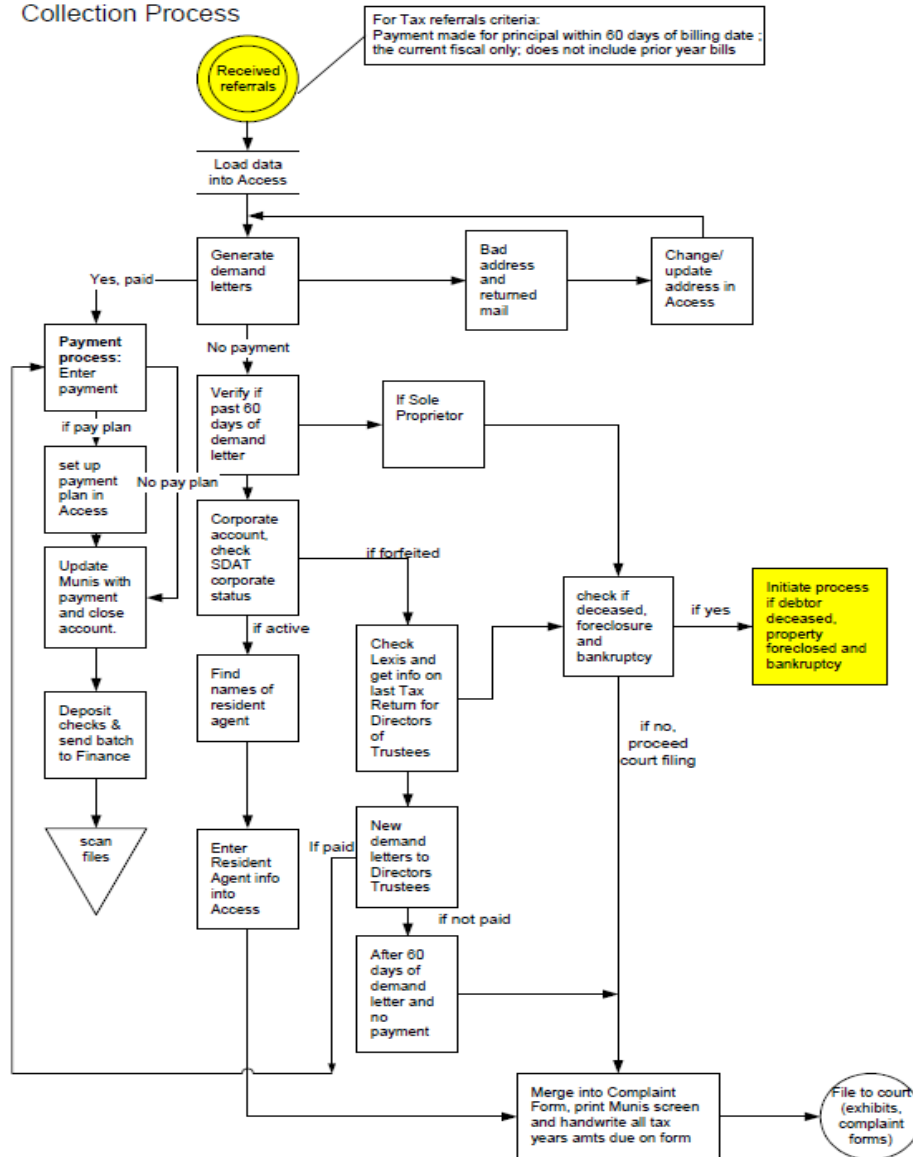
- Introduce local legislation authorizing the county to prepare and mail personal property bills based on estimated assessments on or after September 1 as authorized by state law. (Section 10-210 of the Tax-Property Article)
- Pursue additional reporting from State of Maryland for large taxpayers - primarily public utilities.



Montgomery County Business Personal Property Tax Billing Debt Collection Process

Business Personal Property Tax Process: OCA Debt Collection

Part 1 - Debt Collection Process



Major Steps in Debt Collection Process

- Referral from Finance
- Issuance of collection letters to business
- Acceptance of payment

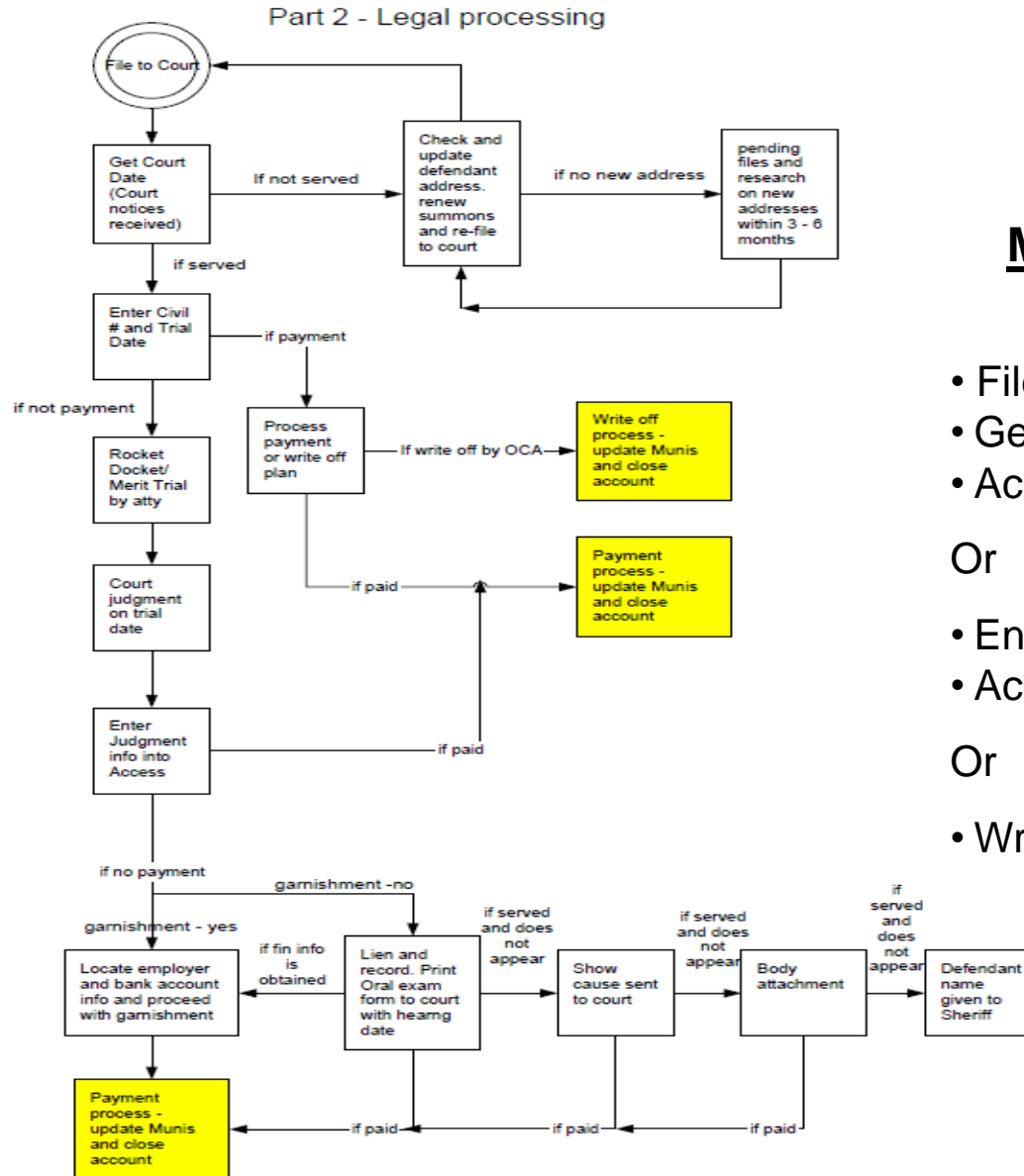
Or

- Preparation to file complaints

If there is no payment on principal within 60 days of billing date, Finance refers the case to the Office of the County Attorney for collection.



Business Personal Property Tax Process: OCA Legal Processing



Major Steps in Legal Processing

- File to court
- Get court date
- Acceptance of payment

Or

- Enter trial
- Acceptance of payment

Or

- Write off debt



OCA: Current Backlog of Personal Property Tax Cases

Tax Year	Number of Cases	Amount to Collect
Prior to 1999	82	\$285,196.61
1999	220	\$212,752.26
2000	341	\$309,658.49
2001	193	\$305,761.54
2002	531	\$344,170.34
2003	589	\$465,344.33
2004	1010	\$518,659.45
2005	1104	\$738,965.21
2006	631	\$535,400.97
2007	2940	\$1,379,404.77
2008	4782	\$3,211,395.70
2009	2941	\$3,232,737.04
Total	15364	\$11,539,446.71



OCA: County Attorney Follow-Up On Unpaid Bills

	FY06	FY07	FY08	FY09	FY10 (March)
Personal Property Cases Opened	5894	3960	8030	10037	5993
Amount Owed	\$7,717,922	\$5,650,331	\$14,602,367	\$29,322,020	\$9,748,352
Amount Collected**	\$11,499,279	\$7,155,544	\$22,350,800	\$42,047,819	\$8,521,014

** The Amount collected is based on fiscal year total collection that will include collection from prior open cases. It does NOT correlate to the Amount owed for that fiscal year.

The increase in FY09 is due to extensive efforts given to audit old accounts in the Treasury's MUNIS system and rigorously pursue those accounts



Office of County Attorney Recommendations on Alternative Debt Collection Techniques

- **Allow payers to view and pay their delinquent bills on-line**
 - At the moment, this service is different from the Finance's on-line tax payment site as OCA needs to include new payment plus interest and penalties and also include payment plan information for those who opt to pay by installments.
 - Credit cards payments incur a fee and the county has to absorb the fee unless the county can add additional fee to the tax bill.
- Add one staff member to the collection team to concentrate on skip tracing (research for company and responsible parties)
- Create debt collection system to monitor key dates for legal actions upon certain status flags



Office of County Attorney Recommendations on Improving Existing Processes

- In the last three years, OCA's Debt Collection Unit has quadrupled the amount collected without increasing its workforce.
- The support staff has decreased from five to three full time positions since FY06.
- The Unit has requested to implement an integrated collection system that will allow it to manage its collection and legal case management effectively and efficiently.
- Although the request has been added to the ERP implementation (Phase 3b), OCA is not certain if this will be available in the next two years due to budget constraint.
- A collection system is much needed to replace many of the current processes including creating reports in both Excel and Access and to provide a tickler system to follow up on various parts of the legal processes when due for actions.



Wrap-Up

- Follow-Up Items

